

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Executive Summary

Applicant:	California-Nevada Methodist Homes ("CNMH") 201 19 th Street, Suite 100 Oakland, California Alameda County	Amount Requested:	\$39,000,000
		Loan Term:	30 years
		Date Requested:	Dec. 1, 2005
		Resolution Number:	F-315
Project Sites:	555 Gibson Avenue, Pacific Grove, California, Monterey County 1850 Alice Street, Oakland, California, Alameda County		
Facility Type:	Residential care facility, skilled nursing facility		
Uses of Loan Proceeds: Loan proceeds will be used to expand and improve Forest Hill Manor and to reimburse Lake Park Retirement Residence improvement costs.			
Type of Issue:	Negotiated public offering with fixed rates		
Credit Enhancement:	Cal Mortgage Insurance		
Expected Rating:	"A" Standard & Poor's (Based on Cal-Mortgage's credit rating)		
Senior Underwriter:	Herbert J. Sims & Co.		
Bond Counsel:	Orrick, Herrington and Sutcliffe		
Financial Overview: CNMH has posted positive net income for the past three fiscal years and has a high demand for its services in the Monterey and Alameda County areas. CNMH's balance sheet is solid with good liquidity, a strong debt service coverage ratio and significant net assets.			
Sources of Revenues: (6/30/05)		<u>Amount</u>	<u>Percent</u>
	Resident fees	\$9,654,165	62.3%
	Amortization of entrance subscriptions	2,921,447	18.9%
	Patient fees	2,349,599	15.1%
	Interest income	271,045	1.8%
	Net assets released from restrictions	109,210	0.7%
	Unrealized gain on investments	72,789	0.5%
	Rental income	65,114	0.4%
	Miscellaneous	43,637	0.3%
	Total revenue	<u>\$15,487,006</u>	<u>100%</u>
Estimated Sources of Funds:		Estimated Uses of Funds:	
	Bond Proceeds	\$39,000,000	Construction
	Equity Funds	4,552,000	\$31,215,000
	Investment Earnings on		Reimbursement
	Trustee Held Funds	<u>1,165,000</u>	4,500,000
	Total Sources	<u>\$44,717,000</u>	Debt Service Reserve Fund
			2,052,000
			Financing Costs
			<u>6,950,000</u>
			Total Uses
			<u>\$44,717,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for California-Nevada Methodist Homes in an amount not to exceed \$39,000,000, subject to a final Cal-Mortgage Insurance commitment.			

STAFF SUMMARY AND RECOMMENDATION

**California-Nevada Methodist Homes
("CNMH")**

December 1, 2005
Resolution Number: F-315

I. PURPOSE OF FINANCING: CNMH is embarking on a plan to expand its operations to meet increasing demand for residential care facilities. Loan proceeds will be used to expand and improve the Forest Hill Manor (FHM) and to reimburse CNMH for improvement costs to the Lake Park Retirement Residence (LPRR).

Construction of the Forest Hill Manor, Pacific Grove \$31,215,000

The CNMH project encompasses the construction of eight cottages for Independent Living (IL) units, removal of the old Assisted Living (AL) Wing, and building a new four-story, 68,000 square foot building that will include 24 additional IL apartments, 18 AL units, 26 Skilled Nursing Facility (SNF) beds and underground parking.

Reimbursement for the Lake Park Retirement Residence, Oakland 4,500,000

CNMH intends to reimburse itself for a \$4.5 million project, which included the construction of nine new additional nursing beds, approximately 5,000 square feet of activity space for nursing residence and renovation of the exiting SNF in Oakland. The facility was completed in 2005.

Debt Service Reserve Fund..... 2,052,000

Financing Costs 6,950,000

Capitalized interest3,999,000

Insurance premium.....1,825,000

Cost of issuance..... 658,000

Underwriters discount 468,000

Total Uses of Funds \$44,717,000

Structure of Financing:

- Negotiated public offering with serial and term bond maturities.
- Fixed interest rates.
- Final maturity date of October 1, 2035.
- Credit enhancement – Cal-Mortgage Insurance.
- Expected Credit Rating: A (S&P), based on Cal-Mortgage Insurance.
- Debt Service Reserve Fund.
- General obligation and gross revenue pledge.
- Financial covenants acceptable to the Authority.

II. FINANCIAL STATEMENTS AND ANALYSIS:

California-Nevada Methodist Homes

STATEMENT OF ACTIVITIES

(Unrestricted)

	3 Months		For the Year Ended June 30	
	Ended Sept. 30			
	2005	2005	2004	2003
	(Unaudited)			
<u>Revenue</u>				
Resident fees	\$ 2,565,383	\$ 9,654,165	\$ 9,052,323	\$ 8,675,417
Patient fees	622,810	2,349,599	1,878,944	1,847,361
Amortization of entrance subscriptions	730,362	2,921,447	2,874,367	3,400,054
Interest income	93,972	271,045	273,203	327,460
Rental income	17,041	65,114	63,775	60,242
Unrealized gain (loss) on investments	(31,374)	72,789	(238,615)	471,092
Realized gain on investments	-	-	21,710	1,889
Miscellaneous	12,202	43,637	48,988	49,736
Net assets released from restrictions	5,481	109,210	687,526	977,390
Total revenue	<u>4,015,877</u>	<u>15,487,006</u>	<u>14,662,221</u>	<u>15,810,641</u>
<u>Expenses</u>				
Medical services	724,992	2,965,682	2,799,354	2,631,454
Food and food services	819,383	3,395,422	3,195,530	3,104,329
Administration	851,002	3,439,533	3,273,645	3,106,129
Housekeeping	187,673	696,903	642,918	610,485
Utilities	184,449	747,338	712,272	664,700
Personal care	238,520	1,088,926	1,029,219	992,774
Maintenance and operations	194,173	871,399	825,034	789,935
Medical care	80,398	301,360	239,552	499,009
Laundry	9,257	26,831	24,974	27,418
Activities	53,482	229,240	206,359	200,615
Social services	15,222	71,059	58,728	52,322
Property taxes and insurance	26,001	118,884	134,849	102,764
Depreciation	320,506	1,249,783	1,086,004	1,122,635
Interest	43,253	128,943	36,021	21,366
Sale of facility expense	15,460	71,491	-	-
Bad debt (recovery)	-	121	(11,357)	9,486
Total expenses	<u>3,763,771</u>	<u>15,402,915</u>	<u>14,253,102</u>	<u>13,935,421</u>
Increase in unrestricted net assets	252,106	84,091	409,119	1,875,220
Unrestricted net assets, beginning of year	<u>4,535,003</u>	<u>4,450,912</u>	<u>4,041,793</u>	<u>2,166,573</u>
Unrestricted net assets, end of year	<u>\$ 4,787,109</u>	<u>\$ 4,535,003</u>	<u>\$ 4,450,912</u>	<u>\$ 4,041,793</u>

California-Nevada Methodist Homes
Statement of Financial Position

	As of September 30,		As of June 30,	
	2005 (Unaudited)	2005	2004	2003
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,353,395	\$ 2,120,308	\$ 1,461,756	\$ 1,123,260
Investments, at fair value	7,640,152	7,544,983	5,347,876	5,898,561
Accounts and notes receivable, net	279,729	625,305	258,048	366,858
Accrued interest	75,682	55,030	58,113	63,769
Prepaid expenses	376,180	785,116	720,994	736,700
Total current assets	<u>9,725,138</u>	<u>11,130,742</u>	<u>7,846,787</u>	<u>8,189,148</u>
Property and equipment, net	16,133,705	15,954,965	15,511,614	11,808,662
Other assets	90,584	67,542	550,374	603,307
Total Assets	<u>\$ 25,949,427</u>	<u>\$ 27,153,249</u>	<u>\$ 23,908,775</u>	<u>\$ 20,601,117</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities:				
Account payable - trade	\$ 553,791	\$ 853,268	\$ 1,175,785	\$ 1,032,701
Line of credit	3,763,040	3,763,040	3,363,040	-
Accrued liabilities	399,882	851,107	578,415	685,855
Notes payable	-	-	10,000	-
Total current liabilities	<u>4,716,713</u>	<u>5,467,415</u>	<u>5,127,240</u>	<u>1,718,556</u>
Long term:				
Accrued severance pay	85,323	85,323	88,808	88,808
Notes payable	36,000	36,000	36,000	98,000
Entrance deposits	691,410	680,269	93,240	415,300
Deferred revenue from entrance subscription	15,048,369	15,778,733	13,607,651	13,167,232
Deferred compensation	67,741	68,756	66,211	67,728
Other	2,605	2,605	2,605	2,605
Total liabilities	<u>20,648,161</u>	<u>22,119,101</u>	<u>19,021,755</u>	<u>15,558,229</u>
Net assets:				
Unrestricted	4,787,109	4,535,003	4,450,912	4,041,793
Temporarily restricted	514,157	499,145	436,108	1,001,095
Total net assets	<u>5,301,266</u>	<u>5,034,148</u>	<u>4,887,020</u>	<u>5,042,888</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,949,427</u>	<u>\$ 27,153,249</u>	<u>\$ 23,908,775</u>	<u>\$ 20,601,117</u>

Financial Ratios:

Proforma (a)(b)
FYE 2005

Debt Service Coverage (x)	1.63	11.34	42.51	141.31
Debt/Unrestricted Net Assets (x)	8.81	.01	.02	.02
Margin (%)		.54	2.79	2.58
Current Ratio (x)		2.04	1.53	4.77

(a) Recalculates 2005 audited results to include the impact of this proposed financing.

(b) Proforma debt service coverage is based on budget projections of Year 3 in feasibility study.

Normally, the proforma debt service coverage is calculated based on the fiscal year 2005 audited results with the additional bond debt payment. The proforma debt service coverage using the normal calculation is .67x, which does not take into consideration the additional revenue that would be generated from the new facility.

Financial Discussion:

CNMH has posted positive net income for the past three fiscal years and has a high demand for its services in the Monterey and Alameda County areas.

CNMH's revenues consist primarily of resident fees, amortization of entrance fees, patient fees and interest income accounting for approximately 98% of total revenues in fiscal year ending 2005. Total revenue declined from \$15.8 million in fiscal year end 2003 to \$15.5 million in fiscal year 2005, primarily as a result of ending the capital contributions for the LPRR skilled nursing facility expansion. The LPRR project was completed in fiscal year 2005.

When continuing care retirement communities (CCRC) receive an entrance fee, they also book an equal liability. Entrance fees are amortized as revenue over the expected life of the resident. If the resident dies earlier than expected, the remaining liability is eliminated representing a benefit to a CCRC. In fiscal year 2003, there were a high number of earlier than expected deaths at CNMH, resulting in a \$3.4 million amortized total. In fiscal years 2004 and 2005, there were the average amounts of deaths resulting in lower revenue of \$2.9 million.

Operating expenses increased due to inflationary factors in the market. CNMH has experienced an increase in expenses for utilities and administration, which are comprised of employee benefits, liability insurance and State Workers' Compensation insurance. Management has aggressively approached these expense items to minimize the impact to residents. Additionally, management has focused on increasing occupancy at both FMH and LPRR to create greater economies of scale.

The increase in unrestricted net assets for fiscal year 2003 was unusually high due to the high number of unexpected deaths, the significant earnings gained from the stock market and the capital contributions related to the LPRR skilled nursing facilities expansion.

CNMH's balance sheet is solid with good liquidity, a strong debt service coverage ratio, and significant net assets.

A steady increase in cash and investments from fiscal years 2003 through 2005 was reported as occupancy increased during the last six months of fiscal year 2005 and entrance fees were collected from new residents. In addition, the net value of property increased as the LPRR skilled nursing expansion was completed.

CNMH's current balance sheet is strong with good liquidity as cash and cash equivalents exceed \$2.1 million, a debt service coverage ratio of 11.24x, and total net assets of over \$5 million. CNMH will be highly leveraged upon issuance of the bonds with a debt to unrestricted net assets ratio of 8.61x, however its proforma debt service coverage is a 1.63x, indicating CNMH has the ability to repay the proposed loan.

III. UTILIZATION STATISTICS:

Average Annual Occupancy Percent

Forest Hill Manor, Pacific Grove

Fiscal Year Ending June 30,	Independent Living	Assisted Living
2003	83.3%	91.7%
2004	81.8%	83.3%
2005	87.9%	91.7%
2006*	97.0%	83.3%

* For three months ending September 30, 2005.

Lake Park Retirement Residence, Oakland

Fiscal Year Ending June 30,	Independent Living	Assisted Living	Skilled Nursing
2003	82.2%	76.9%	95.0%
2004	84.8%	76.9%	88.5%
2005	84.5%	75.0%	80.0%
2006*	86.1%	76.1%	85.0%

* For three months ending September 30, 2005.

IV. BACKGROUND:

Founded more than fifty years ago, California-Nevada Methodist Homes is a California non-profit public benefit corporation based in Oakland, California. CNMH operates two lifecare continuing care retirement communities, Forest Hill Manor in Pacific Grove and Lake Park Retirement Residence in Oakland and one free-standing skilled nursing facility, Pacific Grove Convalescent Hospital.

Licenses and Contracts

FHM and LPRR are each licensed by the State of California Department of Social Services as a residential care facility for the elderly. All facilities are also licensed by the California Department of Health Services. CNMH is a member of the American Association of Homes and Services for the Aging and a member of the California Association of Homes and Services for the Aging.

Service Area and Competition:

Forest Hill Manor

There are two primary competitors in Pacific Grove; Canterbury Woods and Carmel Valley Manor. Both facilities are lifecare CCRCs built more than 30 years ago. Like Forest Hill Manor, Canterbury Woods and Carmel Valley Manor have strong occupancy levels. The proposed project will give Forest Hill Manor a distinct competitive advantage in several ways:

1. State-of-the-art skilled nursing center with 18 private beds and 8 semi-private beds
2. State-of-the-art assisted living apartments
3. 8 cottage units in 2 4-plex buildings at the front of the campus

4. 24 spacious apartment units
5. Continuing care contract option (90% refundable and traditional, non-refundable)

Lake Park Retirement Residence

The recent 9-bed addition to the skilled nursing center at Lake Park Retirement Residence has balanced the continuum of care for that campus so that now all lifecare residents should be able to receive nursing care on campus – a key in marketing a lifecare CCRC. Additionally, the diversity of the resident population at Lake Park Retirement Residence is a testament to the Facility’s position in the market; its resident population is reflective of the population of downtown Oakland ongoing demand. The pricing of the entrance fees and monthly fees is competitive and generally less than the pricing levels at the two competitive facilities in the market, St. Paul’s Tower and Piedmont Gardens.

IV. OUTSTANDING DEBT:

Date Issued:	Original Amount	Amount Outstanding As of 6/30/05*	Estimated Amount Outstanding after Proposed Financing
Existing:			
Notes payable	\$36,000	\$36,000	\$36,000
Proposed:			
CHFFA 2005 Bonds			39,000,000
Totals		<u>\$36,000</u>	<u>\$39,036,000</u>

* Includes current portion of long-term debt.

V. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

CNMH has provided a description of its savings pass through in **Exhibit A**.

VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower’s facility as to the person’s potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) to post notices in appropriate areas within the

facility regarding services being available to all in the service area. This agreement is a standard “Certification and Agreement Regarding Community Service Obligation”.

CNMH has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VII. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant’s responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant’s compliance with the provisions of the Authority’s Act relating to religious affiliation.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for California-Nevada Methodist Homes in an amount not to exceed \$39,000,000, subject to a final Cal-Mortgage insurance commitment.